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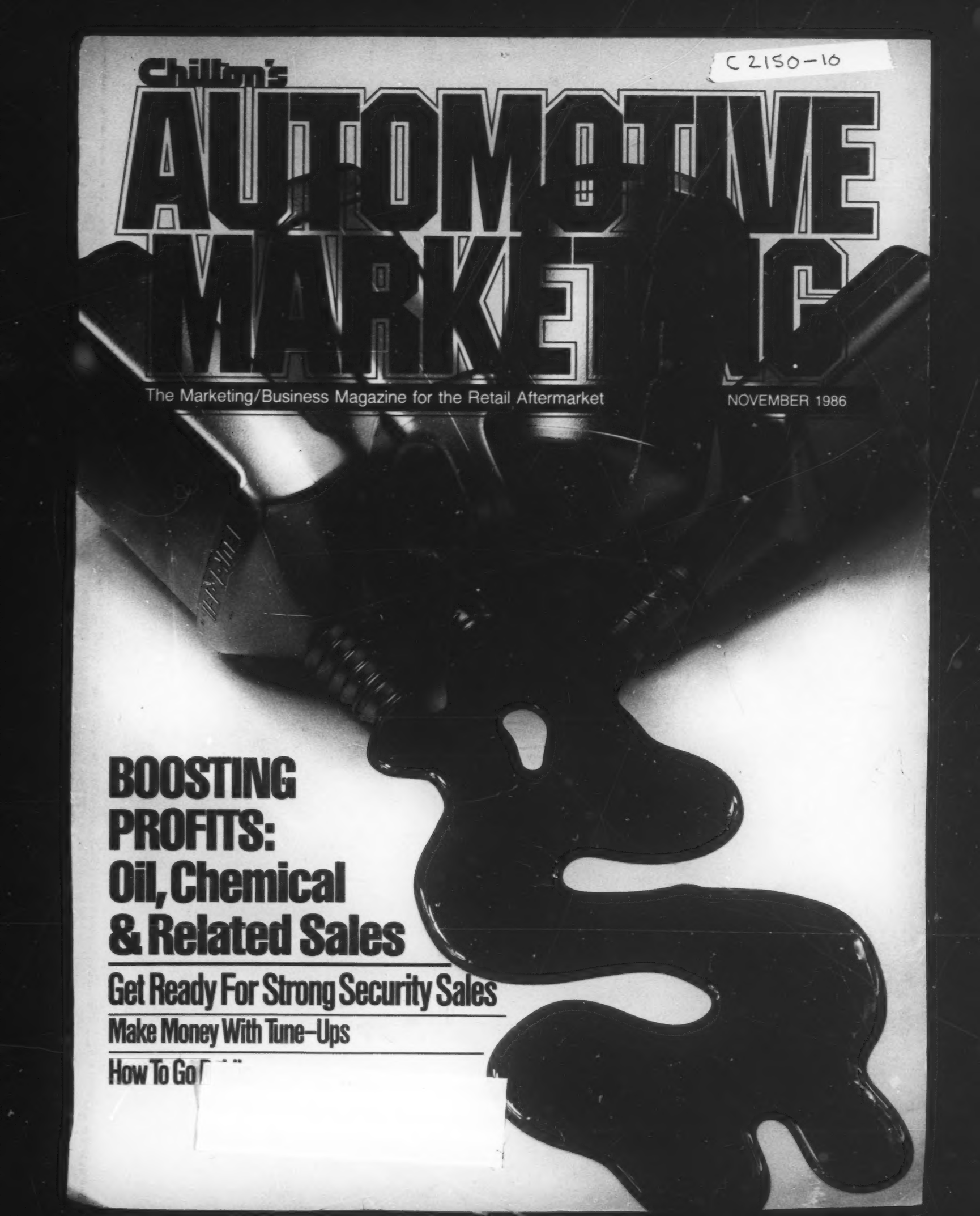
AUTOMOTIVE MARKETING

The Marketing/Business Magazine for the Retail Aftermarket

NOVEMBER 1986



BOOSTING PROFITS: Oil, Chemical & Related Sales

Get Ready For Strong Security Sales

Make Money With Tune-Ups

How To Go

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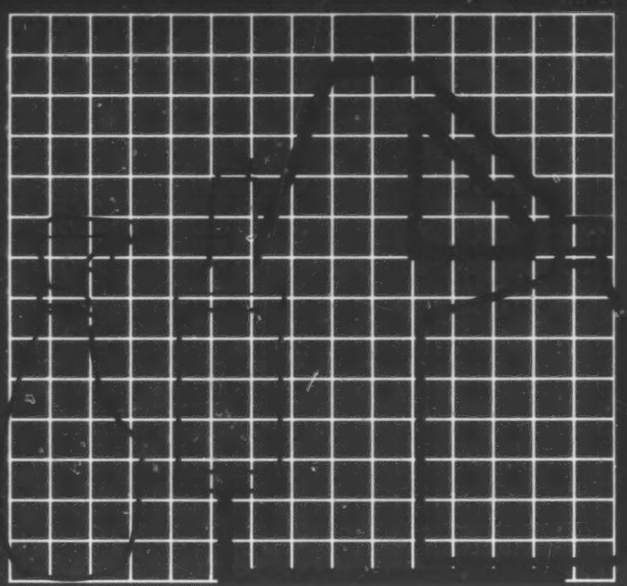

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PUBLISHER'S NOTES

FOOTBALLING SKUs

Chemicals and oil! They command attention, they draw traffic, and they make sales! But, given the industry's practices of footballing some of these items, do they yield all possible benefits to the bottom line? Contributing editor Edward Kaufman talked with makers and sellers about current action plans for these controversial product lines.

This issue premieres Automotive Marketing's Index, a look at aftermarket economic facts and figures. The AM Marketbasket analyzes, according to geo-demographic regions, the prices of common DIY parts.

Security products, when displayed correctly, do well for retailers but you must promote them if they're going to be the profit makers they can be. Senior Editor Gail Krueger-Nicholson also looks at radar detectors in parts stores.

The government has tough rules requiring exact conformation if you want to take your company public. Get details from Touche Ross' Richard Wolfe in the final part of this series on capital expansion.

If anyone can, contributor David Evans can determine if you're making profits on tune-up activities in retail service bays. Check it out.

As usual, we're anxious to know how you like our issue, and what you want to read in the months to come! Let us hear from you!

Sarah Frantzen,
Publisher

THE AUTOMOTIVE MARKETING INDEX

THE 1986 *AUTOMOTIVE MARKETING* MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index.The products include a non-resistor spark plug; an oil filter; a can of 10W30 motor oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

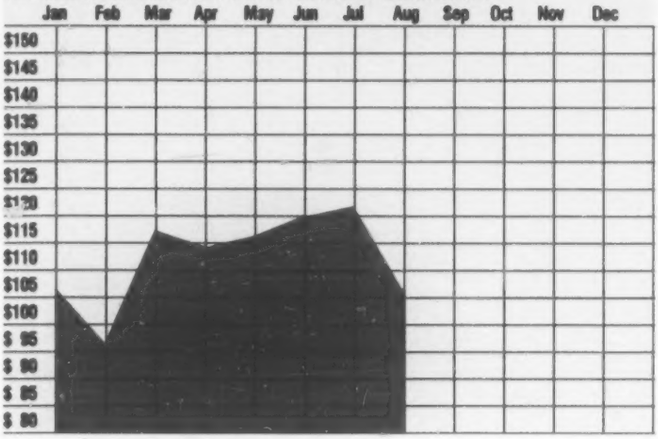
NATIONAL AVERAGE MARKETBASKET PRICES FOR AUGUST 1986

A non-resistor spark plug:	$ .68	A gas-charged shock:	$ 12.17
An oil filter:	1.85	One gallon of antifreeze:	3.00
A can of 10W30 oil:	.87	One pair of wiper refills:	2.35
A can of paste wax:	3.35	A 40-month battery:	33.12
An AM/FM Cassette:	49.81	Total:	$107.20

AM MARKETBASKET PRICES BY MARKETING AREA FOR AUGUST

		3. Smokestack East:	$118.03
		4. Old South:	97.71
		5. Caribbean South:	111.82
		6. Smokestack Central:	99.57
		7. Grainbelt Central:	108.08
		8. Spanish West:	85.20
1. Greenbelt East:	$ 95.96	9. Desert West:	152.53
2. Megapolis East:	100.02	10. Greenbelt West:	102.66

NATIONAL AVERAGE MONTHLY 1986 AFTERMARKET MARKETBASKET PRICES



AFTERMARKET BUSINESS INDICATORS

	Unit/Base	Mo/Qr	Current Period	Prior Period	Year ago, Same Period	Low (81-86)	High (81-86)
Personal Income	billion	June	$3,479.2	$3,475.7	$3,304.0.6	$403.8 (Jan 61)	$3,479.2 (Jun 86)
Personal Consumption Expenditures	billion	2Q	$2,730.1	$2,697.9	$2,576.0	328.5 (1Q 61)	2,730.1 (2Q 86)
Consumer Price Index	67 = 100	June	327.9	326.3	322.3	89.3 (May 61)	327.9 (Jun 86)

AMERICAN-BUILT CARS SOLD IN SEPTEMBER

Americans bought 5.8% more U.S.-built cars in September 1986 than in September 1985. But the growth was all in the beginning of the month. During the last ten days of September domestic sales actually fell 16.7%. And, manufacturers still have a fairly large backlog of 1986 models to get rid of.

Maker	September 1986	September 1985	% Change
American Honda	23,431	12,873	74.7%
American Motors	11,115	12,188	- 12.5
Chrysler	140,451	108,906	23.8
Ford	219,609	229,403	- 8.1
General Motors	519,077	462,879	7.7
Nissan	5,098	6,641	- 26.3
Volkswagen of America	6,135	6,492	- 9.2
Total U.S. Industry	924,919	839,382	5.8
LIGHT TRUCKS (DOMESTIC AND FOREIGN) SOLD IN SEPTEMBER			
Class I	279,956	204,252	37.1

Sources: E.F. Hutton & Co., Motor Vehicle Manufacturers Association

1986 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various retail chain, manufacturer, and distributor stocks in different stock exchanges for the 52-week period prior to October 22. Prices have been climbing since the major drop on the New York Stock Exchange in the middle of the September.

	Exchange	52-week High	Low	10/22 Quote	P-E
Cardis Corp.	AMEX	10	5 7/8	8	7
Champion Spark Plugs	NYSE	11 7/8	7 3/4	9 3/4	–
Crown Auto	OTC	4 1/4	3 1/4	3 3/8	12
Dana Corp.	NYSE	34 7/8	22 1/2	31 7/8	15
Echlin	NYSE	20 1/4	11 1/2	19 1/4	17
Genuine Parts	NYSE	48 3/8	30 1/2	42 3/8	19
Lucky Stores	NYSE	37 3/8	22 1/2	35 1/4	25
Parker Hanniflin	NYSE	30 1/2	20 1/4	25 1/4	13
Pennzoil	NYSE	91	44 3/4	68 1/4	39
Pep Boys	NYSE	48 1/4	23 3/8	43 7/8	33
Perry Drugs	NYSE	20 1/8	12 7/8	13 7/8	17
Purolator	NYSE	24	15	20 1/2	–
Quaker State	NYSE	30	21 3/4	25 1/2	12
Republic Auto	OTC	10 1/4	7	7	–
Rite Aid	NYSE	35 1/2	22 1/2	27 7/8	16
Sealed Power	NYSE	31 1/4	23 1/8	25 1/8	10
Southland (Pref)	NYSE	76	53	67 1/2	–
Southland	NYSE	56 7/8	37	47 1/8	21
Standard Motor Parts	NYSE	20 1/8	11 1/4	18 3/8	17
TBC Corp.	OTC	14	8 3/4	9 3/4	18
Tenneco	NYSE	43 1/8	34 1/2	40	9
Trak Auto	OTC	17 3/4	10	17	3
Triad Systems	OTC	13 1/8	7 3/4	9	15

PRODUCT OF THE MONTH: SPARK PLUGS

The 1986 *Automotive Marketing Consumer Automotive Repair Study*, told us about the individuals who purchased and installed spark plugs during the 12-month period prior to the study.

			Age					Income				Hours Per Month Spent On DIY				Number Of Cars Responsible For		
Total	Male	Female	-25	25-34	35-44	45-54	55+	Under $20K	$20-30K	$30-40K	40K+	-1 hr	1-5 Hrs	6-10 Hrs	11+ Hrs	1	2	3 or More
100.0%	89.2%	10.8%	25.8%	32.3%	18.2%	8.6%	15.0%	39.7%	29.6%	14.3%	16.4%	8.0%	53.0%	20.5%	17.2%	27.7%	40.4%	31.9%

MARKET LINE

Valvoline Buys Rapid Oil Change, Joins Fast Lube Battle

At the end of September, Valvoline, Lexington, KY, acquired Rapid Oil Change, Inc., Minneapolis, and joined Quaker State and Pennzoil in operating or investing in fast lube stores. During the past year, Pennzoil, Houston, TX, invested $100 million as a 50% partner with Jiffy Lube Intl., Baltimore, in opening 325 new fast lubes over the next three years. Quaker State, Oil City, PA, bought Minit-Lube in Salt Lake City, which operates more than 110. The three companies control about 85% of the oil sold through fast lubes.

Rapid Oil Change opened its first fast lube in 1976, and now has 45 operations, all company owned, in Minneapolis, Madison, WI, Albany, Rochester, and Syracuse, NY. The company would not comment on sales, but an outside estimate of $10 to $12 million is not unreasonable.

"This acquisition is an extension of Valvoline's strategy to grow in areas related to its basic business," Valvoline president John Boehm said. "We believe that Rapid Oil is the best operated company in the fast-growing fast lube business. We are particularly pleased that Rapid Oil management will continue to operate the company and provide leadership for extensive expansion of the business by Valvoline."

At press time, Rapid Oil and Valvoline executives were in the midst of a week-long planning session to set Rapid Oil strategy through 1992.

We asked if they'd been forced to act quickly for fear of being frozen out of the market by Pennzoil and Quaker State. "Forced is not the right word," a Valvoline spokesman said. "We've had a number of opportunities to enter the market. We were just not ready to do so. The trend is clear. There's a shift in the installed segment toward the fast lube, and Valvoline wanted to make sure it has a fair share of this market. We've had plans to enter the market for some time now. It was just a matter of where and when."

He would not rule out further acquisitions. "Competition in fast lubes is going to be rough because all the major oil companies are getting in on it. It's a new battleground."

SHARE OF OIL SALES THROUGH FAST LUBE OUTLETS

Prior to the Valvoline and Quaker State acquisitions, Pennzoil was far in front in share of market for quick lube sales with one of every two sales. How fast the new entrants will expand their companies remains to be seen.

Pennzoil	50%
Quaker State	25%
Valvoline	10%
All others	15%

Source: *Automotive Marketing* estimates from various sources

We asked what effect fast lubes have on DIY sales. "The oil companies are not behind the growth of fast lubes. The market started ten years ago, operated by independents. The consumer is more convenience oriented. There are more lawn services, people eat out more instead of cooking. Time is a scarce resource and people are looking at any way to save time. The consumer fueled the growth of fast lubes. And the accelerated growth has attracted the leading oil companies. But again, we see the trend on the installed segment rather than DIY for now."

Looking ahead, however, the spokesman said the volatile oil market will make oil companies "cross bridges that haven't been crossed before."

A Rapid Oil spokesman said the company believes Valvoline wanted a management team for expansion. "They're putting us in charge of continuing to grow. We're going to give Quaker State and Pennzoil a run for their money." ■

Interview: Palmer of USA Fast Lube

Bob Palmer has a big map of Denver on his wall, with flags of many colors pinned to it. Blue flags signify 13 USA Fast Lubes open or under construction. Yellow flags indicate eight properties he's working on for a deal.

Then there are 25 orange flags, one for each Grease Monkey fast lube in the area. There are nine X's for good Grease Monkey locations and six little white flags where they're not doing too well. (The others are somewhere between good and bad.) Palmer likes the white flags. Palmer doesn't like any competitor but he particularly doesn't like Grease Monkey, which is also headquartered in Denver.

Palmer started Grease Monkey in 1978 and built it to 32 operating stores and close to $3 million in sales before he left in a stockholder's fight.

"I had no intention of getting back in the business," Palmer said. (He says he only started Grease Monkey because Jiffy Lube wouldn't let him sell Jiffy Lube franchises). "I turned down offers from other fast lube franchises. I wanted to get into a fast food operation. But we never got together. I ran for mayor of Lakewood (a Denver suburb) and lost by 2,400 votes and wrote a book on how to open a fast lube. My wife and I went on a few trips and spent money like water. So I needed money. I decided I knew about fast lubes. Luckily I didn't have a no-compete clause with Grease Monkey."

So in September 1983, Palmer started USA Fast Lubes. He sold his first store in May 1984 to Bill Kirksey, who'd started out to buy a Grease Monkey franchise and didn't like it.

USA Fast Lube has a different approach to the fast lube business. The ten minute oil change is still the key, but customers can also get tune-ups, brake jobs, and several other services at a USA Fast Lube. The fast lube is the traffic builder, and service the moneymaker.

The service is done by a certified mechanic who's paid totally on commis-